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STATE FOR WHA/CEN, WHA/ESPC, DRL/IL, AND EB/IFD/OMA  
STATE PASS AID FOR LAC/CEN  
STATE PASS USTR FOR WILLIAM CLATANOFF  
TREASURY FOR DORA DOUGLAS  
DOL FOR ILAB  
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E.O. 12958: N/A

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SUBJECT: Honduras: Readout of Secretary Gutierrez  
Bilateral Meeting with Honduran President Ricardo Maduro

1. Summary: On October 19, Secretary Gutierrez met with President Ricardo Maduro in a closed session. The Secretary encouraged Maduro to attend the Summit of the Americas, and to quickly comply with any outstanding CAFTA requirements to expedite entry into force. Maduro welcomed the Secretary's visit and the accompanying trade delegation, praised CAFTA, and highlighted his own achievements over his nearly-complete four-year term. Maduro indicated that his recent encounter with Venezuelan President Chavez over petroleum had been inconclusive. End Summary.

2. On October 19, 2005, during his trade mission to San Pedro Sula, Honduras, Secretary Gutierrez and his team met with GOH President Ricardo Maduro, to discuss CAFTA implementation in Honduras. Also present were Minister of Trade and Commerce Irving Guerrero, Honduran Ambassador to the U.S. Norman Garcia, Department of Commerce (DOC) DAS for Western Hemisphere Walter Bastian, DOC Assistant Secretary and USFCS Director General Israel Hernandez, DOC Chief of Staff Claire Buchan, Embassy Charge James Williard, Millennium Challenge Corporation Vice President John Hewko, and Senior Commercial Officer Mitch Larsen (notetaker).

CAFTA

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3. President Maduro opened the meeting by welcoming the Secretary to Honduras and saying that CAFTA brings lots of

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promise, that it will strengthen Honduran democracy and rule of law, improve competitiveness, strengthen young and fledgling institutions, open markets, and fight oligopolies. Maduro said he understood the risks that President Bush took in fighting for CAFTA. He also stated that Honduras was relatively well-prepared for the implementation of CAFTA and that the country's fiscal situation was under control.

4. The Secretary thanked Maduro for meeting, especially on the heels of his return from Spain for the annual Ibero-American Summit (Note: Maduro flew directly from the airport to the port by helicopter specifically to meet with the Secretary). He said Honduras is going down the right road

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with CAFTA. As an example, he cited Guatemalan supermarket executives who had told him the day before that they expected prices would decrease in Guatemala between 15-20 percent as a result of CAFTA.

5. Citing increased interest in Honduras because of CAFTA, the Secretary described the makeup of the mission's business delegation. It was composed of 19 impressive U.S. companies, including diesel manufacturing, healthcare, insurance, automotive, tourism, energy, and others. It also included firms such as the Eastman Chemical Company and Ford Motor Company. He said that there were over 100 applications for the mission and that Central America is more stable than much of Latin America - it's just that many are just now discovering that. He also noted the participation of interagency representatives from OPIC, USDTA, Eximbank, SBA, IDB, and MCC. Maduro replied that he was pleased to have the Secretary in Honduras, as well as all the companies and the interagency delegation.

6. Maduro said preparations were going well in Honduras for CAFTA, but said that Costa Rica will probably have the hardest time, since it is "more closed" and will have more to open up. The Secretary stressed that President Bush has to certify very soon that all things are in place with respect to CAFTA. The USG wants to move forward with CAFTA in early January. He asked Maduro to comply expeditiously with Honduras' commitments to help "take issues off the table." Otherwise CAFTA could suffer the same fate as the U.S. FTA with Morocco, whose entry into force has been held up significantly because President Bush could not certify due to a number of outstanding issues.

## Taxes in Honduras

17. Noting his failed attempt to dramatically increase gasoline prices, President Maduro said he should have raised sales taxes instead. Corporate marginal tax rates in Honduras are currently 30 percent, and the VAT (IVA) is only 4 percent, the lowest in the region. (The VAT/IVA in Guatemala is 12 percent and in Costa Rica it is 15 percent.) Maduro has encouraged his National Party to address the tax situation in Honduras immediately if they are re-elected this November. He also listed the items exempted from sales taxes in Honduras, which include medicines, school supplies, energy, water, and the "canasta basica" (basket of basic food items). Maduro explained that when he took office, 7,000 products were price-controlled, and that one of his initial priorities was to remove many of these controls. The Secretary responded that price controls simply do not work; only the market works.

## Summit of the Americas

18. The Secretary asked Maduro to personally attend the upcoming Summit of the Americas in Argentina, claiming that his absence would be a real blow to the full participation of all CAFTA countries, especially given Honduras' leadership as one of the first countries to ratify. Maduro said that he would be pleased to attend the Summit.

## Hard Currency Flows, Industry, and Investment

19. Raising the issues of dollarization and remittances, Maduro claimed that Honduras received \$1.3 billion in remittances in 2004 and is expecting \$2 billion in 2005. He stated that dollarization is not a priority for Honduras, but that remittances are having an increasing social impact. The problem is that growing remittances could cause the Honduran currency to revalue.

10. Maduro noted that Honduras had strengthened its banking system since the "debacle" of 5-7 years ago. Now there are foreign banks and a solid playing field in banking in Honduras, although a good home mortgage program is lacking. He also expressed his belief that microcredits was a great concept for the bottom of the entrepreneurial chain. This is an area that Maduro said he would like to be involved in once he leaves the Presidency.

11. Turning to the fuel price crisis, Maduro said that recent increases in the Honduran fuel bill are equivalent to 2.5 times the country's aid receipts. On the other hand, the country is currently growing at 5 percent, or two times the regional average. In Honduras, maquilas used to mean simple assembly, whereas now it means full integration. In forestry, an industry with many opportunities in Honduras, Maduro said the country was polarized between the environmentalists and business interests.

12. Maduro added that the recent debt forgiveness was very important to Honduras. Everyone in Honduras is now in unison regarding the IMF Agreement, he said, "even the Catholic Church." The Agreement has provided \$218 million in increased monetary flows, or 10 times what Honduras spends on its school lunch programs, and two times the \$100 million Maduro had promised his constituents. Those debt service payments, which were 3 percent of Honduran GDP - can now be re-directed to social programs, to help the private sector, and to increase productivity. The Secretary praised Maduro for his fiscal discipline and for leaving a strong economic foundation for his successor.

13. Maduro said Mexico now has an interest in financing a new oil refinery in the region. He also said that after repeated attempts to schedule a meeting with Hugo Chavez over fuel, he "grabbed" Chavez at the Ibero Summit in Spain. However, Maduro said that Chavez seemed more interested in holding out the prospect of some petroleum price break than in actually negotiating a deal. Maduro speculated that Chavez merely craves the attention he commands by holding out the prospect of lower prices. Maduro expressed surprise that Chavez apparently "wants to do something with Mexico." Maduro felt strongly that Chavez is directly involved with the FMLN party in Nicaragua (the Sandinistas). Maduro praised Deputy Secretary of State Zoellick's recent trip to Nicaragua. The Secretary questioned Chavez's economic performance, noting that inflation has increased significantly since he took office. He also reiterated that all the Sandinistas had apparently voted against CAFTA.

14. On investments, Maduro noted that one area where the country was not attracting foreign investment was in call centers, where much of the business was going to countries like Costa Rica and El Salvador. He claimed that Honduras

has good English speakers and that the country needs to do better in this particular area.

#### Port Security

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15. Moving to port issues, the Secretary and the President discussed the ceremony (later in the day) at Puerto Cortes to officially inaugurate the new U.S. Customs office. With regard to the Container Security Initiative (CSI), Maduro claimed that Honduras was on-track and things were moving forward as planned. Ambassador Garcia confirmed that final preparations should be ready during November. The Secretary congratulated the President on efforts to date and said that, as the third port in Latin America with CSI status, this was a real advantage for Honduras.

16. Following their bilateral meeting, the Secretary and President Maduro went on to a port briefing and lunch and then a dedication event at the new U.S. Customs Office in Puerto Cortes, at which both gave brief remarks and took questions from local press.

17. This cable was cleared by the Department of Commerce.

Williard